NORTHERN IRELAND HOTELS FEDERATION

Hotel Market in Northern Ireland

A report from the Northern Ireland Hotels Federation on the hotel market and the challenges it faces.

OCTOBER 2021

> Hotels closed for more than half of the last year.

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Northern Ireland Hotels Federation
The McCune Building, 1 Shore Road, Belfast BT15 3PG
Tel: 028 9077 6635 Web: nihf.co.uk

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Reflecting on the Past

Looking back over the last decade, the progress the hotel sector has made should not be underestimated. Hotel investment of £800m, a record number of bedrooms - 9,627 in 145 properties with a TRevPAR of circa £700m - have all been delivered.

As 2020 dawned, the sector's mood would have been cautiously optimistic with many looking forward to a solid year ahead with limited growth, rate consolidation and steady occupancy. There was of course a "Brexit Blip" on the horizon but after a period of record hotel growth, the opportunity beckoned to capitalise on investment and attract visitors from not only new market segments but from new geographic locations.

Tourism spend had broken the magical one-billion-pound mark. The sector felt it had earned its place as a key economic driver with over 70,000 people employed in the combined tourism and hospitality sectors.

In March 2020, the world changed. COVID-19 arrived; tourism ceased, hospitality closed, travel halted, and the hotel sector began the first of three lockdowns. The challenges of this period are etched in many people's memory. A difficult time with little hope and daily despair transpired; however, the one resounding feature has been the resilience of a sector under fire. First to close, last to open and constrained as no other.

The end of 2021 is nigh and after a turbulent eighteen months the industry is firmly focused on the future with recovery being the primary ambition. Baseline for recovery will be 2019. 2020 will be a year to forget with occupancy levels of 33%, a disastrous Christmas opening and the constant threat of constraint and closure.

2021 has proved to be a year of surprises: some pleasant and others distinctly less so. Hotels were permitted to reopen on 24th

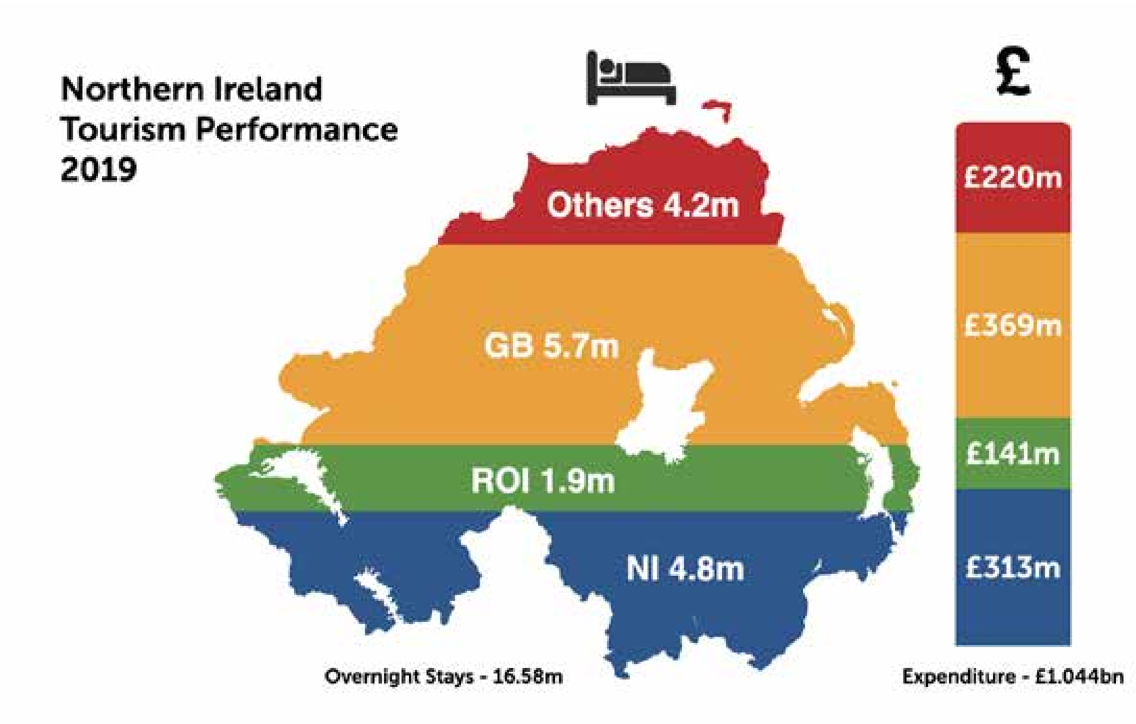

Figure 1: Northern Ireland Tourism Performance 2019

May 2021. A number had traded throughout lockdown offering accommodation for key sectors and permitted stays. The consensus viewpoint suggests that those who remained open for essential business had a much easier return to full trading since they managed to maintain better staffing levels and did not have to undergo the rigours of bringing the business back to life.

The framework for reopening whilst constricted was significantly better than many had hoped for. The shock for everyone was the speedy uplift in bookings and the overall level of trading.

Most hotels in Northern Ireland were reopened by early June and the "Staycation Summer" began in earnest. Trading has been strong and rates good, but restrictions have remained in place with some dates mooted for a final easement but no final agreement. Trading was helped by the fact that there was no curfew, as well as a reduction in social distancing. In many ways the defining factor was that the wider hospitality sector was also open, guests booked, and occupancy grew. Pent up demand was high and the unlocking of a large portion of the tourism and hospitality sectors made Northern Ireland a popular destination.

The May 2021 reopening was significantly different to the previous "unlockings". Perhaps it was the length of the post-Christmas closure or the arrival of the vaccine but there was no doubt of the shift in the consumer mood which led to unpredicted levels of business throughout Northern Ireland.

June occupancy of 64.4% was just a marker. Business grew steadily through the summer with August reaching 79.7% occupancy levels. Sluggish starts had been the norm after previous lockdowns; therefore, many were taken by surprise by the sudden change of fortune.

Pinpointing the exact reasons behind the buoyant summer appears to be the coming together of several factors. International travel for those wishing to holiday was challenging with constant shifting in policy and the traffic light system reducing confidence and causing chaos. Many opted not to go down this path, choosing to holiday at home. Northern Ireland tourism opened to domestic business before the Republic of Ireland which delivered an

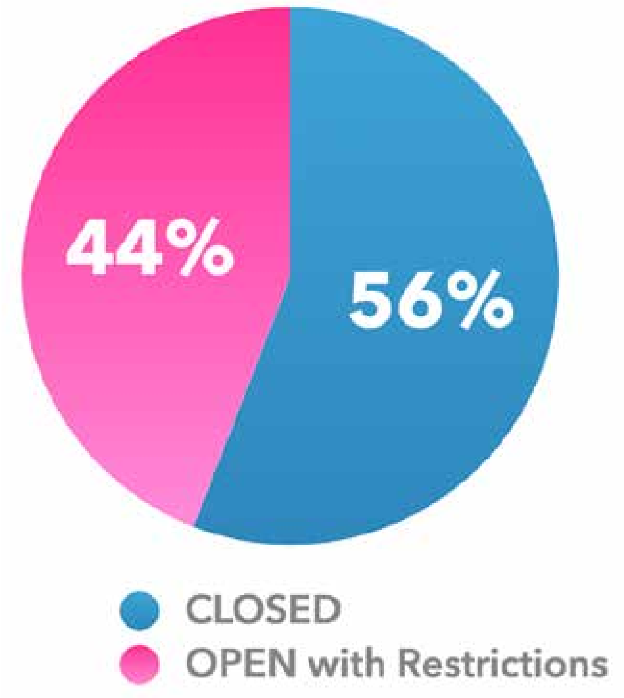

Figure 2: Hotel Trading October 2020 to September 2021

influx of visitors here from the south.

The May unlocking saw bars, restaurants, visitor attractions and retail all return to trading. This wider reopening proved to be attractive with visitors who saw the offer as particularly appealing given there were more things to see and do, along with a hotel to stay in. The significant investment in the sector since 2016 also paid off as this gives Northern Ireland well invested hotel stock at multiple price points.

The wedding market was particularly strong with over 3,000 weddings booked for the summer months. This trend has continued with couples taking advantage of a workable framework based on risk assessed capacity and since September they have benefited further with the return of music and dancing.

The role of the new Northern Ireland Brand "Embrace a Giant Spirit", backed by a significant campaign, should not be understated and was particularly effective south of the border. Images of wide-open spaces, outdoor activities and relatively small urban dwellings resonated well with visitors and saw occupancy levels which were the envy of other regions.

Industry Sentiment and Survey

In March 2021, the Federation surveyed its members to assess the mood prior to reopening and identify the challenges ahead. At this time, the emphasis was on the reopening and what would constitute a sustainable and viable industry framework. The curfew, a residents only model and restricted numbers for weddings (not based on risk assessment) were all deemed to be unviable.

Perhaps the starkest figure was the number of staff required to reopen, calculated to be 2,565 over the one hundred and forty-five hotel premises. Other notable factors were the amount of time required to prepare to reopen (17 days being the industry average) and the industry's willingness to adapt to ensure a safe environment for their guests.

In May, the sector did reopen albeit in a restricted manner but the framework proved to work for the industry and customer alike. Some measures have been relaxed over the months but the need to return to full service remains imperative. In September 2021, a further survey highlighted the perilous position that hotels have in relation to staff. Of those surveyed, 100% of businesses required additional staff and 85% had restricted their services in line with their available staff complement.

The headline figure of 1,400 vacancies sent shockwaves through the industry. Hotels at full operational pre-pandemic levels employed 10,000 people; the current level of vacancies equates to 14% of the hotel industry's staffing need.

This is a worrying development, particularly as this situation is mirrored across other people intensive sectors: food processing, construction, manufacturing, and agriculture. They are all telling a similar tale. The labour market has altered immeasurably with prospective employees stating job security as their number one priority.

The "open and close" roller coaster of COVID-19 for the hospitality and tourism sector has further damaged the industry's already beleaguered image. A significant amount of work is required to alter the attractiveness of the sector and added to this we have what has been termed "The Great Resignation". A post COVID-19 phenomenon that has seen people reassess their lives, looking particularly at their work life balance. The result has sent shockwaves through the global labour

> **"85% of hotels had to restrict services due to staff shortages."**

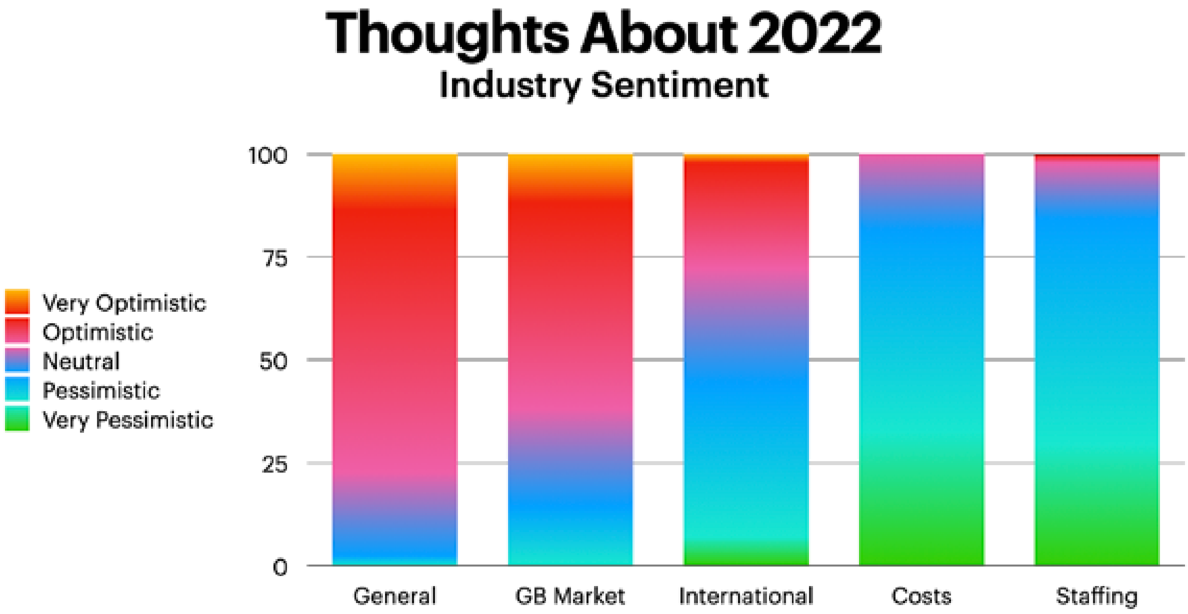

Figure 3: Industry Sentiment for 2022 as surveyed in September 2021

market. People have resigned in droves, with many deciding to change careers in search of security, or to find a job or follow a path that they love. The pandemic has empowered them and the results have been dramatic. A huge shortage of workers, significant wage inflation and a curtailing of service in many hospitality businesses to a level in line with staffing levels has resulted.

Despite the challenges of the last eighteen months, the overall sentiment within the sector was an optimistic one. General trading was deemed to be good with decent prospects in the domestic and GB markets. There were concerns about International trade and a more pessimistic attitude to its return in 2022.

Issues around costs are of real concern along with the aforementioned staffing challenges. The rise in the cost of doing business has manifested in higher energy charges, increased food and commodities bills.

A few interventions supported the sector over lockdown. A business rates holiday agreed early in 2020 helped businesses with cashflow and liquidity. Grants at the local level through the Local Restrictions Support Scheme and the Large Tourism & Hospitality Business Support Scheme helped with survival.

The VAT reduction which came into place on 15th July 2020 was deemed to be the intervention that was of most benefit once the sector was open and trading. Disappointment that the 5% rate was not extended and that businesses were only able to avail of this measure for 239 restricted trading days was palpable.

A 12.5% VAT rate is now in place until 1st April 2022, 7.5% below the current 20% standard rate. A strong case has been put forward by the NIHF to hold it at this level. Northern Ireland finds itself in the unique and difficult position of sharing a land border with a jurisdiction which has benefited from a reduced VAT for hotel services since 1986.

A 9% rate will remain in place in the Republic of Ireland until September 2022. It is unlikely that it would rise beyond the pre-pandemic rate of 13.5%. A realigning of accommodation and food VAT rates within the UK back into the standard 20% band will present a considerable challenge for the industry. Applying the rise in full in April could place the industry in an uncompetitive position.

A further complication is the marketing of the island of Ireland as a single destination in all overseas destinations. An unenviable prospect for all.

Accommodation Stock

The hotel sector remains the largest provider of tourism accommodation with 145 hotels comprising 9,627 bedrooms. This is the largest number on record and is the result of a near billon pound investment over the last decade. Over the last five years, the trend has been opening of new hotels and expansion of existing stock together with an influx of Guest Accommodation products and Self-Catering accommodation. The number of Bed & Breakfasts has reduced with Guesthouse premises falling in considerable numbers.

How will the accommodation sector alter in post pandemic times? This is a question that many have asked but may be impossible to fully address at this time. Hotels have long been the preferred accommodation product of choice for visitors with 83% of those seeking lodgings choosing the hotel option in 2019. Self-catering has fared well in post pandemic times with larger living spaces and a controlled environment for larger groups to be safely accommodated.

Type	Premises	Rooms
Hotels	145	9,627
Guesthouses	78	705
Guest Accommodation	307	1,549
Bed & Breakfasts	561	1,874
Self-Catering	3,716	4,831
Hostel	45	533
Campus Accommodation	10	4,282
Bunk Houses	12	37
Total	4,874	23,438

Figure 4: Northern Ireland Accommodation Stock by Sector

Large spaces, private areas and outside capacity in hotels have seen customers use more of their services with guests prepared to upgrade or splash out on premium products.

This is evidenced in the 2021 RevPAR figure which reached an unprecedented £85.59 mark in August. Larger areas to eat and drink have been popular and outdoor areas have been developed extending space, adding a new dimension to Northern Ireland's offering. Weddings have provided a robust income stream.

Hotels are looking at new spaces within the hotel demesne: lodges, shepherd huts and other innovative outdoor options have begun to appear. A mixed product offering under the auspices of "a Hotel" offers the comfort of service with the flexibility of multiple dwelling and food & beverage options.

Hotel Performance

The three months since reopening have seen a good performance with strong weekend occupancy and a good room rate. The rate is somewhat skewed by the 5% VAT rate but shows a substantial rise since 2019.

Trading has fallen back slightly since September with an estimated occupancy level of 64% and a room rate of £104.81. Weekend trade remains buoyant, but the sector is starting to feel the effects of no international trade, limited business travel and no major events to speak of. There are still a number of regulations in place that impact on trading and while these are not as restrictive as those in place in 2020, they do affect costs and capacity. The continuing threat of lockdown lurks in the background and continues to exercise the industry as Christmas approaches.

In 2020, the sector sold in the region of 1.15m bedrooms. In 2021, the forecasts suggest that this will grow to almost 1.5m rooms. A better performance but still way off 2019 levels.

However, there is comfort to be taken in a better room rate and occupancy level likely to be well ahead of 2020 with significantly more rooms sold. The increase in ADR has been buoyed up by the reduced 5% VAT rate. The ADR may fall back when the higher 12.5% rate is applied as it may be difficult to pass this increase onto the customers.

The higher rate came into effect on 1st of October, traditionally room rates are lower at this time because of less demand after the high summer season. The next couple of months may be more difficult to call, in terms of occupancy and rate, as weekend demand is high, the spend local voucher may encourage customer activity and there is still significant wedding business on the books.

The Northern Ireland story will have many twists and turns but the performance is still notable and much discussed over the summer. To put it into perspective, Dublin is sitting at a year-to-date occupancy of 28% and an average room rate (ADR) of £88.

Pre-COVID levels would have seen Dublin enjoy an occupancy in the region of 84% and an ADR of £130. The Autumn does look better for Dublin and cities like Manchester, Liverpool and Glasgow. A return of events and English and Scottish football stadia back at full capacity will help destinations through the winter.

Northern Ireland may have a more difficult winter ahead but having been tested over the last eighteen months, resilience has been rewarded with a revival of fortune that few could have predicted.

Period	August			Period	August YTD		
Year	2021	2020	2019	Year	2021	2020	2019
Occupancy	79.7%	57.3%	83.9%	Occupancy	43%	36.5%	72.8%
ADR	£107.44	£101.98	£82.78	ADR	£95.11	£71.44	£78.38
RevPAR	£85.59	£46.74	£69.48	RevPAR	£40.97	£26.06	£57.61

Figure 5: August Hotel Performance 2019-21

Region	OCC 2021 YTD (%)	OCC 2020 (%)	OCC 2019 (%)	OCC 2018 (%)	Average Daily Rate 2021 YTD (£)	Average Daily Rate 2020 (£)	Average Daily Rate 2019 (£)	Average Daily Rate 2018 (£)	RevPAR 2021 (£)	RevPAR 2020 (£)	RevPAR 2019 (£)	RevPAR 2018 (£)
All Northern Ireland	43.1	33.2	70.9	73.3	£95.11	£72.22	£78.26	£79.32	£40.97	£24	£55.54	£58.16
Belfast	43.6	32.5	72.5	33.2	£90.28	£68.72	£77.78	£80.08	£39.35	£22.32	£56.39	£60.50
Derry-Londonderry	40.8	37.7	66	69.4	£89.30	£60.59	£69.18	£66.21	£36.47	£25.66	£45.66	£45.98
South West Ulster	?	40.1	63.3	61.5	£?	£89.48	£83.52	£81.96	?	£35.91	£52.86	£50.42
Regional NI	48.8	39.1	70.1	71.3	£106.47	£81.50	£83.62	£82.60	£52	£31.85	£58.66	£58.92

Figure 6: Northern Ireland Hotel Performance 2018-21 (YTD)

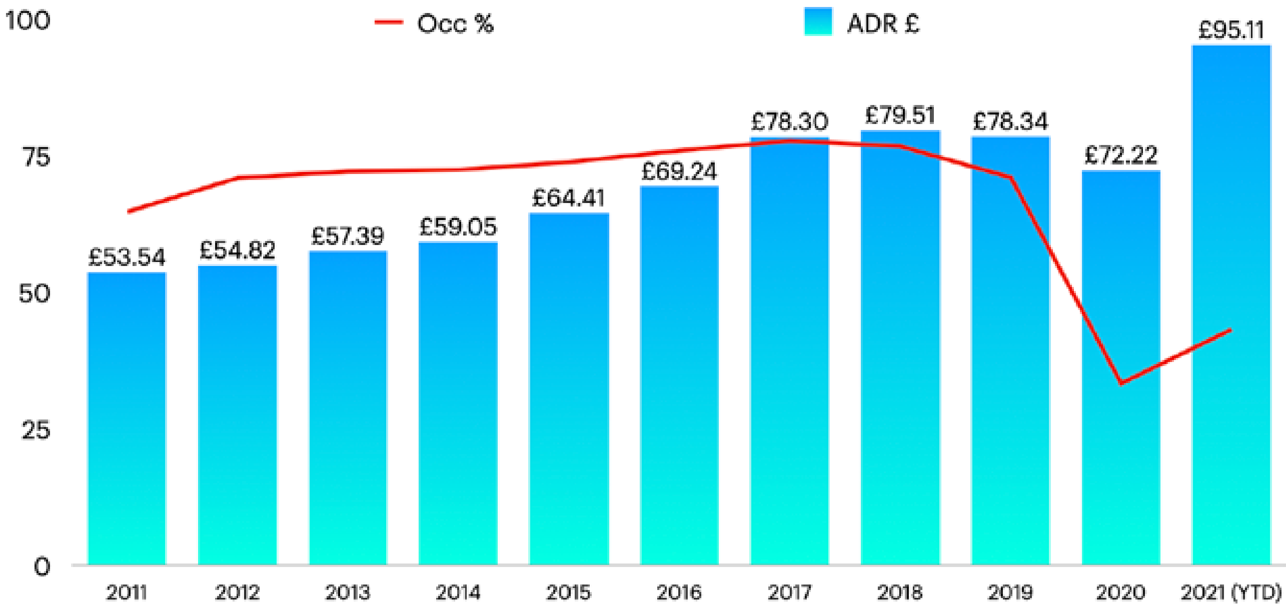

Figure 7: Northern Ireland Hotel Performance 2011-21 (YTD)

“Will we sustain high average rates and lower occupancy?”

Hotel Development

There has been a major investment and expansion of the hotel sector over the last decade with an estimated cost of £800m. The fortunes of the sector have ebbed and flowed but the sector's role as a key economic driver is clearly apparent. Further development is still very much in the mix with forty projects and over 4,000 rooms in varying stages of development, planning and consideration. The situation remains a dynamic one. Projects may evolve and appear in a different guise; others will remain under the radar and suddenly come to life.

Belfast is where the bulk of Northern Ireland's growth has been concentrated. A considerable number of projects are still in the mix with over two and half thousand rooms in varying stages of development.

Several high-profile projects have dropped away, and others may follow depending on economic recovery. Previous intelligence has shown that projects can evolve or re-emerge quickly, depending on finance, need and planning.

The current position of "working from home" and challenges with international travel may stall some development or see it repositioned as new consumer needs are considered.

There are unlikely to be new rooms in any significant number until the end of 2022 but several new players may see the city as a good punt given its post pandemic performance. The Belfast City deal and transport hub development may present new opportunities. It should be noted that hotel development could face challenges in terms of finance from traditional sources.

In conclusion, pre-pandemic forecasts had predicted new stock for 2021. This will now move out to 2022 or possibly beyond. This includes several new players and brands for the city with current forecasting indicating about 600 bedrooms coming to market.

Expansion beyond Belfast has also slowed down with some projects falling by the wayside. The timing of opening is likely to move to 2022 and beyond. One of the most notable developments will be in Derry-Londonderry where the long awaited Ebrington redevelopment project should break ground in the coming months.

Other high-profile projects have simply fallen away while some have been delayed, perhaps rethinking their investment, and adapting their plans to suit the "new normal", as well as differing customer expectations. The issue of planning on the North Coast has seen plans in this region flounder; however, the news that The Open will return in 2025 is likely to reinvigorate efforts. A significant number of existing hotels are looking at some further expansion adding to their bed stock in a non-traditional manner. This could be as lodges, apartments or other structures which have been in much demand.

Conclusion

The sector's performance since reopening has been remarkable. The future is less certain with the stoic nature of the industry standing it in good stead for storms ahead.

Northern Ireland's hotels have had an unprecedented summer but to paraphrase the adage "one season does not a full recovery make". The industry will trade at circa 40% behind the pre-pandemic 2019 levels in terms of room sales and revenue. Business has started to fall back as leisure business returns to a more normal Autumn and Winter weekend pattern. Limited events and the sluggish return of business travel, along with confusion and constraints on international travel, will make the Monday-Thursday window more difficult to fill.

A number of business stimuli will help see the industry through the winter months. Schemes like "Spend Local" and "Stay at Home" vouchers are an important weapon in the 'recovery artillery' and have been well received by businesses and consumers. There is considerable promotional activity in market, and with a new brand, Northern Ireland appears to be capturing the imagination of visitors. Anecdotal reports suggest strong bookings from international markets who are keen to visit with the island of Ireland being seen as a safe and secure destination for post pandemic travel.

There are challenges! An uncertain winter lies ahead with current restrictions hampering a return to full trading and fears about sudden shutdowns niggling in the back of the mind. The industry is being detrimentally affected by a lack of staff. Business is being scaled back in line with staffing levels. A missed opportunity to recoup from earlier closures and restrictions therefore ensues.

Costs across the board are rising exponentially which will be difficult to pass onto consumers. The Support Local scheme, business rates holidays and funded training are required to aid necessary recovery, along with a commitment to the continuation of a reduced VAT rate. Access, particularly by air, has been decimated and being an island destination, it is imperative that this is restored.

The resilience of the industry has however been evidenced by its survival and the eagerness and determination to return to trade. The mood is one of cautious optimism. The ambition is clear with a desire to return to the 2019 levels of business. The consensus is that this journey may be much shorter than originally forecast, and with continued support and a favourable business framework, could be realised within a three-year time frame.

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